

A corporation will not be considered organized as a holding company within the meaning of section 501(c)(2) of the Internal Revenue Code of 1954 where it has broad powers and business purposes far beyond the scope necessary to a holding company. Furthermore, where part of its income is used to reduce indebtedness on property which will ultimately revert to private individuals, it will not be considered as being operated for exempt purposes.

Advice has been requested whether a corporation holding title to property for the benefit of a tax exempt charitable organization may, under the circumstances indicated below, be entitled to exemption from Federal income tax as an organization described in section 501(c)(2) of the Internal Revenue Code of 1954.

The instant organization was incorporated under state law with authority, *inter alia*, to acquire real and personal property; to construct, conduct, and operate buildings of all kinds for the accommodation of the public and of individuals, whether or not such buildings were the property of the organization; to conduct a general real estate business; to buy, sell, deal and trade in mortgages on or interest in real estate; and to acquire, deal in, pledge and dispose of shares of the capital stock, other securities, obligations and evidences of indebtedness issued by any corporations, syndicates, associations, firms, trusts or persons, public or private.

The corporation entered into an agreement for the lease of land for a period of 20 years with a stipulated rental therefor. As additional rent the corporation also agreed to pay all rates, taxes, assessments, etc., coming due on the land during the period of the lease and upon any building or improvements that the corporation might make thereon. Upon expiration or termination of the lease, title to any buildings and improvements which the organization may erect upon the demised land, including any fixtures, equipment and machinery attached to and connected with the operation and maintenance of such buildings and improvements, are to pass to and vest in the lessor without cost or charge whatsoever to the lessor, and free and clear of encumbrances.

The organization then acquired a loan and entered into a contract with a builder for the erection of a building on the land acquired by lease. The building was erected. At the same time, the builder purchased all the interest of the lessor holding title to the land upon which the building was erected. The builder also purchased all the stock of the instant corporation. Shortly thereafter, the builder donated his stock in the organization to an incorporated charity bearing his name.

Profit and loss statements for the first several years of operation show that annual income from building rentals was used

to defray fixed charges including ground rent, real estate taxes, interest on mortgage, amortization of finance charges and for operating expenses including legal expenses, payroll taxes, licenses and fees, salaries, insurance, and so forth.

Section 501(c)(2) of the Code describes one type of an organization exempt from tax as provided by section 501(a) as a corporation organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under section 501(a) of the Code.

From the foregoing, it is readily seen that the organization, here under consideration, was incorporated with broad powers and business purposes far beyond the scope of those necessary to a holding company. The events surrounding the organization and its operations indicate that it was not the intent that its income, less expenses, be turned over to a charitable organization in view of the intention to reduce indebtedness on property which will ultimately revert to private individuals, i.e., in this case to the lessor building contractor.

In view of the foregoing, it is held that the instant organization was not organized for purposes specified in section 501(c)(2) of the Code since its broad powers and business purposes are far beyond the scope necessary to a holding company. Furthermore, since part of its income is used to reduce indebtedness on property which will ultimately revert to private individuals it is not operated for exempt purposes. Accordingly, the organization is not exempt from Federal income tax under the provisions of section 501(c)(2) of the Code.